SENATE BILL 595: Various Revenue Laws Changes, Part XII: IRC Update

2025-2026 General Assembly

Analysis of:	S.L. 2026-31, Part XII	**Date:**	August 14, 2026
		Prepared by:	Legislative Analysis Division Staff

Part XII of S.L. 2026-31 (Senate Bill 595) updates from January 1, 2023, to July 5, 2025, the reference to the Internal Revenue Code used in defining and determining certain State tax provisions following the passage of the One Big Beautiful Bill Act (OBBBA) on July 4, 2025. Updating the Code reference results in conformity to changes made by OBBBA to various federal tax provisions that have an insignificant fiscal impact and would otherwise be administratively burdensome for taxpayers, tax preparers, and the Department of Revenue to decouple from.

This Part requires a decoupling adjustment to the allowance of full first-year expensing for domestic research and experimental (R&E) expenditures, which is similar to how the State treats bonus depreciation and Section 179 expensing. Under the Tax Cuts and Jobs Act (TCJA), domestic R&E expenditures were required to be amortized over 5 years. The OBBBA restored the pre-TCJA treatment so that a taxpayer may deduct the entire expenditure in the year in which the expenditure is paid or incurred. Rather than allowing full first-year depreciation, this provision requires a taxpayer to add-back to federal taxable income or adjusted gross income, as applicable, 80% of the amount deducted at the federal level, which reflects the excess of what the taxpayer would have deducted had the taxpayer amortized the expense over five years. The taxpayer is then allowed to deduct 25% of the add-back in each of the succeeding four taxable years. As a result, a taxpayer will be able to deduct the same amount of an asset's basis under State law as under federal law, it is just that the timing of the deduction will differ. This provision applies as follows:

- To taxable years beginning on or after January 1, 2022, for taxpayers who elect for federal income tax purposes the retroactive application of section 174A(a) of the Code for a taxable year beginning in 2022, 2023, or 2024.
- To taxable years beginning on or after January 1, 2025, for taxpayers who do not make the election.

Except as otherwise provided, this Part became effective July 2, 2026.